

Between Theory and Practice: Islamic Banking and the Realisation of Maqāṣid al-Sharī'ah

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Abstract

This article examines the gap between the theoretical ideals of Islamic banking and its practical realisation of maqāṣid al-sharī'ah. Islamic banking was established as a Shariah-based alternative to conventional banking, grounded in the prohibition of riba, ethical investment, asset-backed transactions, risk-sharing, and socio-economic justice. In theory, Islamic banks are expected to promote fairness, welfare, transparency, financial inclusion, and real-sector development. In practice, however, Islamic banking has often been criticised for relying heavily on debt-based contracts, particularly murābahah, and for resembling conventional banking in pricing, risk transfer, and profit orientation. This article conceptually explores whether Islamic banking has moved beyond formal Shariah compliance toward substantive maqāṣid-oriented outcomes. It discusses the foundations of Islamic banking, the role of maqāṣid in Islamic finance, the theory–practice gap, social impact, and institutional challenges. The discussion argues that Islamic banking cannot be evaluated solely by contract validity or legal form, but must also be assessed through its contribution to justice, inclusion, poverty alleviation, entrepreneurship, and ethical economic transformation. The article concludes that realising maqāṣid requires stronger governance, product innovation, social performance indicators, and institutional commitment to ethical substance.

Keywords

Banking, Maqasid, Shariah, Inclusion, Governance

Introduction

Islamic banking has developed as one of the most visible institutional expressions of contemporary Islamic finance. It emerged as a Shariah-based alternative to conventional banking, seeking to provide financial intermediation without interest while promoting ethical investment, asset-backed transactions, and socio-economic justice. The growth of Islamic banking reflects both religious demand and institutional innovation, as Muslim societies have increasingly sought financial systems aligned with Islamic norms and economic aspirations (Wani et al., 2021). The foundations of Islamic banking are commonly associated with the prohibition of *riba*, avoidance of *gharar* and *maysir*, the use of permissible contracts, and the aspiration to connect finance with real economic activity (Ariff and Iqbal, 2011; Saeed, 2004).

However, the central question is whether Islamic banking has fulfilled not only the formal requirements of Shariah compliance but also the higher objectives of Islamic law, or *maqāṣid al-sharī'ah*. The *maqāṣid* framework directs Islamic legal and economic practice toward welfare, justice, protection of wealth, social equity, and human well-being. Al-Tamimi and Abdellatif (2026) demonstrate that *maqāṣid al-sharī'ah* can provide an alternative ethical perspective for contemporary sustainability, showing its relevance beyond technical legal compliance. In Islamic banking, *maqāṣid* requires financial institutions to contribute to fairness, inclusion, poverty alleviation, ethical wealth circulation, and protection from exploitation.

The significance of this topic lies in the growing concern that Islamic banking practice often resembles conventional banking in product structure, risk allocation, pricing mechanisms, and institutional behaviour. Hanif (2014) compares Islamic and conventional banking and shows that although important differences exist at the theoretical level, practical similarities remain visible in banking operations. Sabirzyanov and Haidir Hashim (2015) similarly raise the issue of concept and reality in Islamic banking and finance, pointing to the gap between normative ideals and institutional practice. This concern becomes more serious when Islamic banks rely heavily on debt-based and trade-based contracts while giving limited attention to profit-and-loss sharing, financial inclusion, and social impact.

The debate is therefore not only about whether Islamic banking products are legally valid, but whether they realise the ethical and socio-economic purposes of Islamic finance. Nienhaus (2011) argues that Islamic finance ethics and Shariah law must be examined together, particularly after financial crises that expose weaknesses in conventional finance and raise questions about the ethical substance of financial systems. Farooq (2022) goes further by arguing for a move beyond Shariah compliance toward broader socio-economic transformation. This distinction is important because formal compliance may validate a contract, but *maqāṣid* realisation requires a deeper assessment of outcomes, institutional behaviour, and social consequences.

This article aims to conceptually examine the gap between Islamic banking theory and practice in realising *maqāṣid al-sharī'ah*. It asks three main questions: To what extent does Islamic banking practice reflect the objectives of *maqāṣid al-sharī'ah*? What factors explain the gap between

theoretical ideals and practical operations? What reforms are needed to strengthen the maqāṣid-oriented role of Islamic banking institutions? By addressing these questions, the article contributes to debates on Shariah compliance, Islamic moral economy, governance, product design, social performance, and the credibility of Islamic financial institutions.

Literature review

The literature on Islamic banking begins with its theoretical foundation as an alternative system of financial intermediation. Islamic banking is designed around principles that prohibit interest, speculative uncertainty, gambling, and investment in unlawful activities, while encouraging trade, asset-backing, risk-sharing, and ethical investment. Ariff and Iqbal (2011) describe Islamic banking as a field shaped by theory, practice, and education, while Saeed (2004) explains its development within wider Islamic perspectives on modern financial life. Nienhaus (2007) examines governance in Islamic banks and shows that Islamic banking institutions require special governance arrangements because they must satisfy both financial and Shariah expectations. Khan et al. (2019) add that the good faith principle in contract law is important for Islamic banking because the system depends not only on formal contracts but also on trust, fairness, and ethical dealing.

The distinction between Islamic and conventional banking remains a central issue in the literature. Hanif (2014) identifies both differences and similarities between Islamic and conventional banking, highlighting the challenge of maintaining Islamic distinctiveness in competitive financial markets. Sabirzyanov and Haidir Hashim (2015) argue that Islamic banking must be understood through the tension between concept and reality, as operational practices sometimes diverge from the participatory and ethical ideals of Islamic finance. Al-Jarhi (2013) also identifies gaps in the theory and practice of Islamic economics, showing that Islamic financial institutions often face difficulty translating normative economic principles into practical systems.

The literature on *maqāṣid al-sharī'ah* provides a broader evaluative framework. Laldin and Furqani (2012) argue that maqāṣid represents a foundational requirement in developing Islamic banking and finance because it directs institutions toward the higher objectives of Shariah. Monawer et al. (2022) propose a conceptual framework for actualising maqāṣid in Islamic finance, showing that maqāṣid can guide product development, institutional governance, and socio-economic impact. Asutay and Harningtyas (2015) develop a maqāṣid al-shariah index to evaluate the social performance of Islamic banks, indicating that Islamic banking should be assessed beyond profitability and formal compliance. Andini et al. (2025) also propose a new approach to maqasid performance based on Islamic banks in Indonesia, showing that maqāṣid measurement remains an evolving area of research.

The theory–practice gap becomes especially visible in product structures. Hatta and Dien (2014) examine the dominance of Islamic debt-based products in the economy, highlighting that Islamic banks often prefer lower-risk, trade-based financing over participatory instruments. Syah (2025) critically reviews murābaḥah financing from a maqāṣid perspective and argues that contemporary use of murābaḥah raises important questions about whether Islamic banking

supports substantive socio-economic objectives. Kayed (2012) discusses the entrepreneurial role of profit-and-loss sharing modes of finance and shows that these instruments carry important theoretical promise but face practical limitations. Mirakhor and Zaidi (2007) similarly emphasise profit-and-loss sharing contracts as central to Islamic finance, while Ben Amar and El Alaoui (2023) examine two-tier mudharabah and its practical implications in Islamic banking.

Institutional constraints are another important theme. Afriadi et al. (2024) discuss mission drift in Islamic rural banks by comparing equity financing with debt-based financing, indicating that institutional pressures can shift Islamic banks away from their social and participatory mission. Vento and La Ganga (2009) discuss liquidity risk management and supervision in banking, which is relevant because liquidity and risk-management pressures often influence Islamic banks' preference for debt-like instruments. Mousavi et al. (2021) identify success factors for innovation management in the banking industry, showing that institutional innovation requires leadership, organisational capacity, and supportive structures.

The literature also addresses governance and social performance. Haridan et al. (2018) examine Shariah boards and question whether they effectively serve Islamic banks through governance and religious assurance. Arfan et al. (2024) show that heterogeneity in scholars' fatwas toward Islamic banking contracts affects maqāṣid implementation, while Solihati et al. (2023) connect good corporate governance, Islamic corporate social responsibility, zakat, Shariah governance, and Shariah compliance with the financial health of Islamic commercial banks. Rahman (2020) examines Islamic finance and financial inclusion for poverty alleviation in Bangladesh, while Bentireche and Hireche (2025) discuss the role of Islamic banks in promoting financial inclusion. Nosheen et al. (2024) link Islamic finance to entrepreneurship and economic growth, and Jibril (2025) discusses pathways for operationalising maqāṣid in poverty alleviation and sustainable development. Together, these studies show that realising maqāṣid requires Islamic banking to move beyond product legality toward measurable ethical, social, and developmental outcomes.

Methods

This study adopts a qualitative and conceptual research approach to examine the gap between Islamic banking theory and practice in realising *maqāṣid al-sharī'ah*. A qualitative design is appropriate because the study focuses on Shariah, ethical, institutional, governance, and socio-economic dimensions that cannot be fully captured through quantitative measurement. Rather than testing hypotheses or measuring statistical relationships, the research seeks to develop a theoretically grounded understanding of how Islamic banking principles are translated into practice and how far they contribute to broader maqāṣid-oriented objectives such as justice, welfare, financial inclusion, transparency, and real economic development.

The analysis is based on secondary qualitative data derived from an extensive review of peer-reviewed literature in Islamic banking, Islamic finance, *maqāṣid al-sharī'ah*, Shariah governance, Islamic moral economy, and socio-economic development. The study also draws on contemporary discussions concerning Shariah compliance, Islamic banking contracts, debt-

based financing, profit-and-loss sharing, maqāṣid performance measurement, financial inclusion, and Islamic banking governance. These sources are selected because they provide conceptual and practical insights into how Islamic banking is theoretically framed and how it operates within modern financial institutions and regulatory environments. This approach enables a critical assessment of the factors that explain the gap between Islamic banking ideals and operational realities.

To enhance analytical depth, the study adopts a thematic and theory-driven approach by synthesising insights from Islamic banking theory, maqāṣid-based frameworks, Shariah governance literature, and Islamic finance practice. The materials are analysed to identify recurring themes such as formal Shariah compliance, maqāṣid realisation, murābaḥah dominance, profit-and-loss sharing limitations, governance effectiveness, social impact, financial inclusion, and institutional mission drift. The analysis also considers contemporary challenges, including regulatory pressure, liquidity management, risk aversion, market competition, weak maqāṣid measurement, and limited product innovation. By integrating literature-based insights with conceptual analysis, the methodology provides a holistic framework for understanding how Islamic banking can move beyond formal compliance toward substantive maqāṣid-oriented transformation.

Result and Discussion

Islamic Banking Theory and Maqāṣid-Oriented Ideals

Islamic banking theory is grounded in the idea that financial intermediation should serve ethical, legal, and socio-economic objectives. It is not intended merely to replace interest-based contracts with Shariah-compliant legal forms, but to construct a financial system that promotes justice, transparency, shared risk, and real economic activity. Ariff and Iqbal (2011) present Islamic banking as a field built upon theory, practice, and education, indicating that its institutional development must remain connected to its normative foundations. Saeed (2004) similarly situates Islamic banking within a broader Islamic response to modern financial life, where Islamic principles are expected to guide economic conduct and financial relationships.

The theoretical distinction between Islamic and conventional banking rests on several principles. Islamic banking prohibits riba and speculative transactions, requires lawful underlying activities, encourages asset-backed exchange, and promotes fairness in contractual relations. Hanif (2014) explains that Islamic and conventional banking differ in principle, even if some operational similarities exist in practice. Khan et al. (2019) add that good faith in contracts is essential for Islamic banking because the system depends on ethical dealing and mutual responsibility. Therefore, Islamic banking theory cannot be separated from trust, honesty, and accountability in contractual execution.

Maqāṣid al-sharī'ah provides the higher framework through which Islamic banking should be evaluated. Laldin and Furqani (2012) argue that maqāṣid is a foundational requirement in

developing Islamic banking and finance. This means that Islamic banks should not limit their concern to whether contracts satisfy minimum legal rules; they must also consider whether their activities promote welfare, prevent harm, protect wealth, and strengthen social justice. Monawer et al. (2022) reinforce this view by proposing a conceptual framework for actualising maqāṣid in Islamic finance. Their approach suggests that maqāṣid should guide product development, governance, institutional objectives, and performance assessment.

This maqāṣid orientation challenges Islamic banks to move beyond formal contract validity. Farooq (2022) argues that Islamic finance should move beyond Shariah compliance toward broader socio-economic transformation. This argument is crucial because formal compliance may allow Islamic banks to replicate conventional financial outcomes while maintaining Islamic legal terminology. If Islamic banking becomes primarily profit-driven and risk-transfer-oriented, it risks losing its ethical distinctiveness. Nienhaus (2011) similarly emphasises the relationship between Islamic finance ethics and Shariah law, showing that ethical substance must accompany legal compliance.

A maqāṣid-oriented Islamic bank should therefore support equitable financing, real-sector development, entrepreneurship, poverty alleviation, financial inclusion, and responsible wealth circulation. Trifiletti (2025) discusses ethical substance and systemic ethical competitiveness in Islamic finance, suggesting that Islamic finance must demonstrate ethical value at the systemic level. Ulrich (1998; 2018) develops an ethically based conception of socio-economic rationality, which is useful in understanding why Islamic banking should not operate only according to narrow financial rationality. Islamic banking theory, when viewed through maqāṣid, requires an ethical conception of economic activity in which financial institutions are responsible not only to shareholders, but also to society and the moral purposes of finance.

Thus, the theoretical ideal of Islamic banking is ambitious. It seeks to produce a financial system that is legally Shariah-compliant, ethically meaningful, socially beneficial, and economically productive. The problem is not the absence of theory, but the difficulty of translating theory into practice under competitive, regulatory, and institutional constraints.

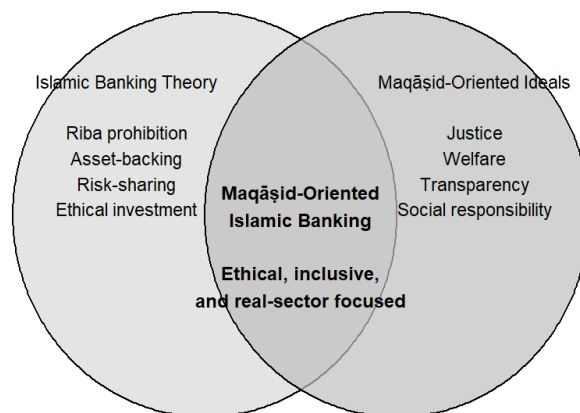


Figure 1. Islamic Banking Theory and Maqāṣid-Oriented Ideals

Figure 1 presents the relationship between Islamic banking theory and maqāṣid-oriented ideals through a Venn diagram. The first circle represents the theoretical foundations of Islamic banking, including the prohibition of *riba*, asset-backing, risk-sharing, and ethical investment. The second circle represents the higher objectives of *maqāṣid al-sharī'ah*, including justice, welfare, transparency, and social responsibility. The overlapping area shows that maqāṣid-oriented Islamic banking emerges when formal Shariah-based banking principles are integrated with substantive ethical and socio-economic objectives. This means that Islamic banking should not be evaluated only by contract validity, but also by its contribution to inclusion, fairness, welfare, and real-sector development.

Practical Realities of Islamic Banking Operations

The practical operations of Islamic banks often reveal a significant gap between maqāṣid-oriented ideals and institutional realities. One of the most widely discussed issues is the dominance of debt-based financing. Hatta and Dien (2014) examine the dominance of Islamic debt-based products in the economy, showing that Islamic banks frequently rely on sale-based and debt-like structures rather than profit-and-loss sharing. *Murābaḥah*, in particular, has become a dominant financing instrument because it is relatively simple, predictable, and easier to manage within existing banking systems.

Syah (2025) critically reviews *murābaḥah* financing from a maqāṣid perspective and raises concerns about whether contemporary *murābaḥah* practices sufficiently realise the objectives of Shariah. While *murābaḥah* is legally valid when properly structured, its widespread use may create the perception that Islamic banks are reproducing conventional debt finance in Islamic contractual form. This does not mean *murābaḥah* is inherently illegitimate, but it does suggest that Islamic banking practice must examine whether product dominance weakens the broader maqāṣid vision of risk-sharing, fairness, and real-sector empowerment.

Profit-and-loss sharing instruments such as *mudarabah* and *musharakah* are often presented as closer to the theoretical spirit of Islamic banking. Mirakhor and Zaidi (2007) discuss profit-and-loss sharing contracts as central to Islamic finance, while Kayed (2012) highlights their entrepreneurial role in theory and practice. These instruments can support entrepreneurship because they link finance to business performance and distribute risk more equitably between capital providers and entrepreneurs. Ben Amar and El Alaoui (2023) examine two-tier *mudharabah* and show that partnership-based structures remain important for Islamic banking theory.

However, Islamic banks often limit their use of profit-and-loss sharing due to practical constraints. These include information asymmetry, monitoring costs, moral hazard, regulatory capital requirements, customer preferences, and risk aversion. Banks must protect depositors, maintain liquidity, satisfy regulators, and compete with conventional institutions. Vento and La Ganga (2009) discuss liquidity risk management and supervision in banking, which helps explain why

Islamic banks may prefer predictable cash-flow instruments over uncertain partnership-based financing. In practice, liquidity and risk management pressures push Islamic banks toward products that resemble conventional bank financing.

Afriadi et al. (2024) examine Islamic rural bank mission drift and compare equity financing with debt-based financing, showing that even institutions with social and Islamic missions may shift toward safer debt-based models. This mission drift is important because it demonstrates that institutional survival pressures can weaken maqāṣid-oriented commitments. Islamic banks may support social goals in principle, but in practice they operate in markets where profitability, risk control, regulatory compliance, and shareholder expectations shape decision-making.

Innovation management also affects this gap. Mousavi et al. (2021) identify success factors of innovation management in the banking industry, suggesting that product transformation requires organisational capacity, leadership, and strategic commitment. Islamic banking cannot become more maqāṣid-oriented simply by criticising murābahah or praising musharakah. It needs institutional innovation in risk-sharing models, social financing, SME products, impact measurement, and governance incentives.

Therefore, the practical reality of Islamic banking is shaped by a complex interaction between Shariah ideals, commercial banking logic, regulatory constraints, and operational risk. The gap between theory and practice is not merely caused by weak commitment; it also reflects the difficulty of operating maqāṣid-oriented institutions within modern financial systems structured around risk minimisation, liquidity control, and profit competitiveness.

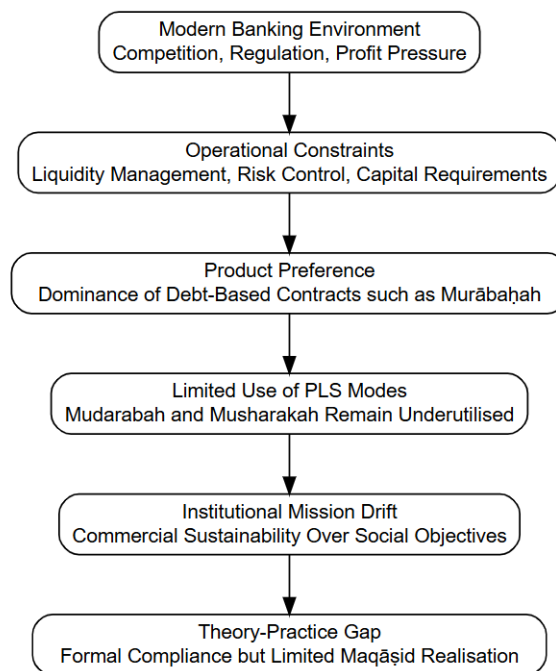


Figure 2. Practical Realities of Islamic Banking Operations Vertical Line Diagram

Figure 2 illustrates the practical realities that shape Islamic banking operations through a vertical line diagram. It begins with the modern banking environment, where Islamic banks operate under competition, regulation, and profit pressure. These conditions create operational constraints related to liquidity management, risk control, and capital requirements. As a result, Islamic banks often prefer predictable debt-based contracts such as *murābahah*, while profit-and-loss sharing modes such as *mudarabah* and *musharakah* remain limited in practice. This pattern may lead to institutional mission drift, where commercial sustainability becomes more dominant than social and *maqāṣid*-oriented objectives. The figure therefore shows how practical banking pressures contribute to the gap between Islamic banking theory and *maqāṣid* realisation.

Maqāṣid Performance and Social Impact

A central question in evaluating Islamic banking is whether it contributes meaningfully to *maqāṣid*-based social outcomes. If Islamic banking is judged only by contract compliance, then a bank may be considered successful even if its contribution to financial inclusion, poverty alleviation, entrepreneurship, or social welfare is limited. However, *maqāṣid* requires a broader understanding of performance. Asutay and Harningtyas (2015) develop a *maqāṣid al-shariah* index to evaluate the social performance of Islamic banks, showing that Islamic banking assessment should include education, justice, welfare, and public interest. Andini et al. (2025) also propose a new approach to *maqasid* performance in Indonesian Islamic banks, indicating the growing need for practical measurement tools.

Financial inclusion is one of the most important *maqāṣid*-related outcomes. Rahman (2020) examines the role of Islamic finance in financial inclusion for poverty alleviation in Bangladesh, showing that Islamic finance can contribute to reducing poverty when it reaches underserved populations. Bentireche and Hireche (2025) similarly discuss the role of Islamic banks in promoting financial inclusion, while also identifying challenges and opportunities. These studies suggest that Islamic banks should not only serve middle-class consumers and corporate clients but should also develop financing models for microenterprises, rural communities, SMEs, and financially excluded groups.

Entrepreneurship is another key area of *maqāṣid* realisation. Nosheen et al. (2024) discuss the role of Islamic finance in promoting entrepreneurship and economic growth. This is highly relevant because Islamic finance theory emphasises real economic activity, trade, partnership, and productive enterprise. If Islamic banks primarily provide consumer financing or debt-like facilities, their contribution to entrepreneurship may remain limited. *Maqāṣid*-oriented banking should support productive sectors, business creation, and employment generation, especially through products that reduce unjust risk transfer and promote shared prosperity.

Poverty alleviation and sustainable development are also central. Jibril (2025) discusses the operationalisation of *maqāṣid al-sharī'ah* in Islamic finance through pathways to poverty

alleviation and sustainable development. This reinforces the argument that Islamic banks should be evaluated according to developmental outcomes rather than only financial ratios. Sheikh and Hussain (2025) call for reimagining Islamic banking in light of maqasid shariah, suggesting that the sector must rethink its role, priorities, and institutional models. A maqāšid-oriented Islamic bank should therefore report not only profits and asset growth, but also its contribution to employment, SME financing, zakat-linked welfare, financial literacy, debt relief, and community development.

The challenge is that maqāšid performance remains difficult to standardise. Different institutions may interpret maqāšid differently, and measurement frameworks may vary across jurisdictions. Arfan et al. (2024) show that heterogeneity of scholars' fatwas toward Islamic banking contracts affects maqashid implementation. This diversity can be valuable, but it may also produce inconsistency in how Islamic banks define and report their maqāšid contributions. Solihati et al. (2023) explore the interconnected impact of good corporate governance, Islamic corporate social responsibility, zakat, Shariah governance, and Shariah compliance on the financial health of Islamic commercial banks. Their work suggests that maqāšid performance must be integrated into governance, CSR, zakat, and financial health rather than treated as a separate ethical statement.

A further concern is whether Islamic banks have sufficient incentives to prioritise social impact. Commercial pressure may encourage banks to pursue profitable and low-risk customers while neglecting high-impact but higher-risk sectors. This creates a tension between institutional sustainability and maqāšid realisation. However, the two should not be treated as opposites. A strong Islamic banking system must be financially stable, but its stability should serve broader ethical and social purposes. Maqāšid-based performance frameworks can help align profitability with social responsibility by making social impact visible, measurable, and institutionally relevant.

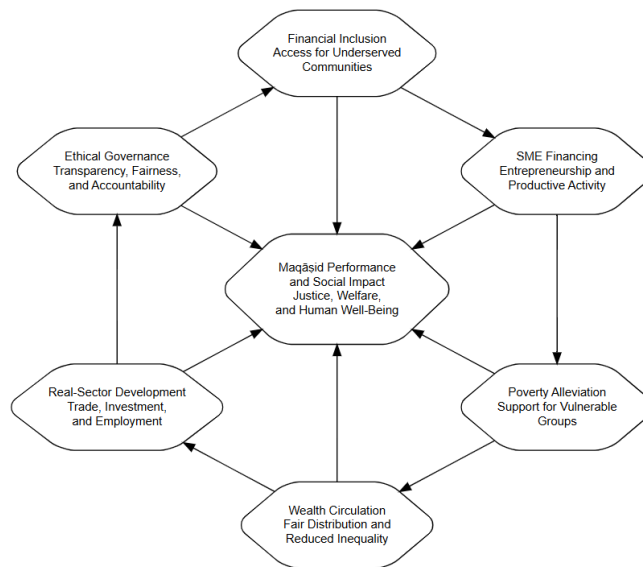


Figure 3. Maqāšid Performance and Social Impact

Figure 3 demonstrates a framework for understanding maqāṣid performance and social impact in Islamic banking. The central element represents maqāṣid performance, which is connected to justice, welfare, and human well-being. Surrounding this centre are six key indicators: financial inclusion, SME financing, poverty alleviation, wealth circulation, real-sector development, and ethical governance. These dimensions show that Islamic banking should be assessed not only by profitability or formal Shariah compliance, but also by its wider contribution to society. The hexagonal structure demonstrates that maqāṣid realisation requires a balanced approach in which Islamic banks support underserved communities, productive entrepreneurship, equitable distribution, transparent governance, and sustainable economic development.

Governance, Institutional, and Regulatory Challenges

The realisation of maqāṣid in Islamic banking depends heavily on governance. Shariah governance is intended to ensure that Islamic banks comply with Islamic legal requirements, but maqāṣid realisation requires governance that also evaluates ethical substance and socio-economic outcomes. Haridan et al. (2018) examine governance, religious assurance, and Shariah boards, asking whether Shariah boards effectively serve Islamic banks. This question is central because Shariah boards often focus on contract approval and compliance review, while maqāṣid-oriented governance requires deeper engagement with product impact, risk allocation, customer protection, and social responsibility.

Nienhaus (2007) explains that Islamic banks have distinct governance needs because they operate at the intersection of commercial banking and Shariah compliance. This dual responsibility creates institutional complexity. Islamic banks must satisfy regulators, shareholders, customers, depositors, Shariah boards, and wider Muslim communities. Governance failure can therefore damage not only financial performance but also religious legitimacy and public trust. Solihati et al. (2023) show that good corporate governance, Islamic CSR, zakat, Shariah governance, and Shariah compliance are interconnected with Islamic banks' financial health. This suggests that maqāṣid cannot be realised through Shariah boards alone; it requires integrated governance across the institution.

One challenge is formalistic compliance. Islamic banks may satisfy contract requirements but fail to address deeper issues such as fairness, affordability, customer vulnerability, and social impact. Farooq (2022) warns that Islamic finance must go beyond Shariah compliance toward socio-economic transformation. Trifiletti (2025) similarly stresses ethical substance and systemic ethical competitiveness in Islamic finance. These arguments point to the need for governance systems that assess whether Islamic banking practices genuinely reflect the purposes of Islamic law.

Regulatory environments also shape Islamic banking practice. Regulations often treat Islamic banks similarly to conventional banks in terms of capital adequacy, liquidity, risk management, and reporting. While such regulation is necessary for stability, it may discourage partnership-based financing if the regulatory framework does not recognise its distinct risk structure. Vento and La Ganga (2009) show the importance of liquidity risk management and supervision, which is relevant

because Islamic banks operate under liquidity pressures that influence product choices. Without supportive regulatory frameworks, banks may continue to prefer debt-based products that are easier to manage and supervise.

Institutional innovation is another challenge. Mousavi et al. (2021) show that innovation management in banking depends on organisational success factors. Islamic banks need innovation not only in technology but also in products, risk-sharing mechanisms, social finance integration, and *maqāṣid* reporting. Athief et al. (2025) examine trends and insights in criticism of Islamic economics and finance, showing that the industry continues to face intellectual and practical critiques. These critiques should not be dismissed; they can help Islamic banking reform itself and recover its ethical purpose.

The way forward requires stronger Shariah governance, *maqāṣid*-based reporting, regulatory incentives, and institutional commitment. Shariah boards should evaluate not only product structures but also product outcomes. Regulators should encourage Islamic banks to disclose social impact indicators. Banks should develop products that support SMEs, poverty alleviation, entrepreneurship, and real-sector development. Islamic banking education should also train professionals who understand *maqāṣid*, ethics, risk management, and social performance.

Ultimately, the theory–practice gap in Islamic banking is not inevitable. It reflects institutional choices, market pressures, governance limitations, and measurement weaknesses. If Islamic banks adopt *maqāṣid*-oriented governance and performance systems, they can move closer to their theoretical ideals while remaining commercially sustainable.

Conclusion

Islamic banking was established as an ethical and Shariah-based alternative to conventional banking, but its realisation of *maqāṣid al-sharī'ah* remains incomplete. The theoretical foundation of Islamic banking is strong: it emphasises the prohibition of *riba*, the avoidance of uncertainty and speculation, asset-backed financing, risk-sharing, justice, transparency, and social welfare. In principle, Islamic banking should contribute to a fairer and more inclusive financial system by linking finance to real economic activity and by promoting ethical responsibility in financial transactions.

However, the practical operation of Islamic banking often falls short of this ideal. Many Islamic banks rely heavily on debt-based and trade-based financing, particularly *murābaḥah*, while making limited use of profit-and-loss sharing instruments such as *mudarabah* and *musharakah*. This creates a visible gap between the participatory ideals of Islamic banking theory and the risk-managed realities of modern banking practice. Although debt-based contracts may be legally valid when properly structured, their dominance can weaken the *maqāṣid*-oriented purpose of Islamic finance if they reproduce conventional patterns of risk transfer, profit orientation, and limited social impact.

The realisation of *maqāṣid* requires Islamic banks to move beyond formal Shariah compliance. Contract validity is necessary, but it is not sufficient. Islamic banks must also ask whether their products and operations promote fairness, reduce exploitation, support entrepreneurship, increase financial inclusion, alleviate poverty, and contribute to sustainable economic development. The success of Islamic banking should therefore be measured not only through profitability, asset growth, and regulatory compliance, but also through social performance, customer welfare, ethical governance, and real-sector contribution.

A major challenge is that Islamic banks operate within competitive financial markets that often reward low-risk, predictable, and profitable products. Regulatory requirements, liquidity pressures, customer preferences, and shareholder expectations all influence product choices. These pressures help explain why Islamic banks may prefer debt-like structures over partnership-based financing. Nevertheless, these constraints should not be used as justification for abandoning the ethical and social objectives of Islamic finance. Rather, they show the need for institutional reform, product innovation, and regulatory support that can make *maqāṣid*-oriented banking more practical.

Governance is central to this transformation. Shariah boards and governance structures must evolve from product approval toward broader ethical and social oversight. They should assess not only whether contracts meet formal Shariah requirements, but also whether they produce fair, transparent, and socially beneficial outcomes. Islamic banks should also strengthen *maqāṣid*-based reporting by disclosing indicators related to financial inclusion, SME financing, poverty alleviation, zakat integration, customer protection, and community development. Such reporting can make *maqāṣid* performance more visible and accountable.

Product innovation is equally important. Islamic banks need to develop more effective models for partnership financing, social finance integration, microenterprise support, ethical investment, and entrepreneurship development. This does not mean abandoning financial sustainability. A *maqāṣid*-oriented bank must remain financially sound, but its financial strength should serve a broader ethical purpose. Profitability and social responsibility should be aligned through governance, incentives, and performance measurement.

The future of Islamic banking depends on its ability to bridge the gap between theory and practice. If Islamic banks remain focused mainly on formal compliance and product replication, their distinctiveness may weaken. If they embrace *maqāṣid*-oriented governance, social impact measurement, and ethical institutional reform, they can strengthen their legitimacy and contribute meaningfully to economic justice. Islamic banking should therefore be understood not simply as a religiously compliant version of conventional banking, but as a transformative financial model aimed at promoting welfare, fairness, inclusion, and human well-being.

In conclusion, the realisation of *maqāṣid al-sharī'ah* in Islamic banking requires a shift from legal form to ethical substance, from product compliance to social impact, and from institutional profitability alone to balanced socio-economic responsibility. The gap between theory and

practice can be reduced through stronger governance, better measurement, regulatory support, innovation, and genuine commitment to the higher objectives of Shariah. Only then can Islamic banking fulfill its promise as an ethical and socially transformative financial system.

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